

PIUTE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

PIUTE COUNTY SCHOOL DISTRICT

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PIUTE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Piute County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Piute County School District (District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Piute County School District as of June 30, 2006, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


GILBERT & STEWART, CPA'S

December 20, 2006

Management's Discussion and Analysis

As management of the Piute County School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ending June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include the *statement of net assets* and the *statement of activities*.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 11 through 12 of this report.

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as ***governmental activities*** in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for ***governmental funds*** with similar information presented for ***governmental activities*** in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between ***governmental funds*** and ***governmental activities***.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the ***general fund***, ***capital projects fund***, and ***debt service fund***, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of ***combining statements*** elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund statements can be found on pages 13 to 17 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the District cannot use these funds to finance its operations.

The District uses a fiduciary fund to account for resources held for other groups. The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 19 to 33 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 35 to 43 of this report.

Government-Wide Financial Analysis (full accrual basis of accounting)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,141,114 at June 30, 2005. Below is a summary of the District's assets, liabilities, and net assets.

PIUTE COUNTY SCHOOL DISTRICT'S Net Assets

	Governmental Activities	
	2006	2005
Current and other assets	\$ 1,982,647	\$ 1,911,562
Capital assets	2,303,006	2,412,999
Total assets	<u>\$ 4,285,653</u>	<u>\$ 4,324,561</u>
Current and other liabilities	\$ 660,205	\$ 665,392
Noncurrent liabilities	402,788	518,054
	<u>1,062,993</u>	<u>1,183,446</u>
Net Assets:		
Invested in capital assets net of related debt	2,045,297	2,039,764
Restricted	533,451	488,188
Unrestricted	643,911	613,162
	<u>\$ 3,222,659</u>	<u>\$ 3,141,114</u>

The largest portion of the District's net assets (63%) reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to students and consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is

reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets (17%) represent resources that are subject to external restrictions on how they may be used. The remainder of net assets (20%) may be used to meet the District's ongoing obligations to students, employees, and creditors. However, the unrestricted net asset amount has been earmarked for the following purposes:

- Designation for Undistributed Reserve

As allowed by law, the District has established an *undistributed reserve* of \$175,000 of general fund budgeted revenues within the general fund which is set aside for contingencies or possible reductions in state funding and not to be used in negotiation or settlement of contract salaries. The maintenance of a sufficient reserve is a key credit consideration in the District's bond rating.

As of June 30, 2006, the District is able to report positive balances in all three categories of net assets, both for the District as a whole and for its separate governmental activities. The same situation held true for the prior fiscal period.

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PIUTE COUNTY SCHOOL DISTRICT'S Changes in Net Assets

	Governmental	
	Activities	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 56,316	\$ 77,466
Operating grants and contributions	1,429,250	1,341,630
Capital grants and contributions	79,880	65,877
General Revenues:		
Property taxes	401,432	393,815
Federal and state aid not restricted to specific purposes	1,963,240	2,279,570
Earnings on investments	31,810	17,998
Miscellaneous	98,879	165,973
Total revenues	<u>4,060,807</u>	<u>4,342,329</u>
Expenses:		
Instruction	2,387,977	2,609,865
Support services:		
Students		
Instructional staff	24,728	25,581
District administration	267,808	312,755
School administration	428,015	130,085
Business	66,775	56,896
Operation & maintenance of plant	361,019	371,269
Transportation	243,444	230,742
School lunch services	183,198	186,871
Interest on long term liabilities	16,298	22,807
Total expenses	<u>3,979,262</u>	<u>3,946,871</u>
Changes in net assets	81,545	395,458
Net assets, beginning	<u>3,141,114</u>	<u>2,745,656</u>
Net assets, ending	<u>\$ 3,222,659</u>	<u>\$ 3,141,114</u>

Financial Analysis of the District's Funds (modified accrual basis)

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to earmark resources for certain government-

wide liabilities that are not recognized in the governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

The *general fund* is the chief operating fund of the District. At June 30, 2006, unreserved and undesignated fund balance was \$606,595 while the total fund balance was \$781,595. The unreserved and undesignated fund balance increased by \$33,473 while the total fund balance also increased by \$33,473 during the fiscal year. Annual expenditures in the general fund were \$1,911 less than the final budgeted amounts, and resources available for appropriation were \$76,355 less than final budgeted amounts.

The *capital projects fund* has a total fund balance of \$222,113, of which \$0 is restricted for acquisition of capital assets and related expenditures. The fund balance increased by \$17,349 during the fiscal year.

The *debt service fund* has a total fund balance of \$204,477, all of which is reserved for the payment of debt service. The fund balance increased by \$25,956 during the fiscal year.

The *non K-12 programs special revenue fund* has a total fund balance of \$106,081. This balance is within the total allowed by state guidelines and is restricted to non-kindergarten through twelfth grade programs and other community programs. The fund balance increased by \$921 during the fiscal year.

The *school lunch special revenue fund* has a total fund balance of \$2,925. This balance is within the total allowed by state guidelines and is restricted to food service programs. The fund balance increased by \$242 during the fiscal year.

Capital Assets and Debt Administration

A. Capital Assets

The capital projects fund is used primarily to account for costs incurred in acquiring, maintaining, and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

The primary class of capital assets used by the District to provide educational services to the public is school buildings. The District continually evaluates the cost efficiency of its buildings as part of its on-going capital improvements plan.

Capital assets at June 30, 2006 are outlined below:

PIUTE COUNTY SCHOOL DISTRICT'S
Capital Assets
(net of accumulated depreciation)

	<u>2006</u>	<u>2005</u>
Land	\$ 125,000	\$ 125,000
Buildings	1,559,515	1,603,496
Furniture and Equipment	618,491	684,503
	<u>\$ 2,303,006</u>	<u>\$ 2,412,999</u>

B. Debt Administration

The general obligation bond debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006 was \$2,107,115 while the general obligation debt at that date was \$200,000 resulting in a legal debt margin of \$1,907,115. The general obligations debt was reduced by principal payments of \$60,000 during the fiscal year.

Additional information on the District's long-term debt can be found in Note 7 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Piute County School District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions concerning this report or need additional financial information, please contact the Business Administrator, Piute County School District, County Courthouse, Junction, Utah 84740.

BASIC FINANCIAL STATEMENTS

PIUTE COUNTY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets:	
Cash and investments	\$ 1,660,898
Receivables:	
Property taxes	305,110
Other governments	6,600
Inventories	2,643
Bond issuance costs, net	7,396
Capital assets:	
Land	125,000
Other capital assets, net of accumulated depreciation	2,178,006
Total assets	4,285,653
Liabilities:	
Accounts payable	152,743
Accrued interest	3,145
Accrued salaries	133,510
Deferred revenue:	
Property taxes	305,110
Other governments	65,697
Noncurrent liabilities:	
Due within one year	122,708
Due in more than one year	280,080
Total liabilities	1,062,993
Net Assets:	
Invested in capital assets, net of related debt	2,045,297
Restricted for:	
School lunch	2,925
Non K-12 programs	106,081
Debt service	202,332
Capital projects	222,113
Unrestricted	643,911
Total net assets	\$ 3,222,659

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instructional services	\$ 2,387,977	\$ 17,613	\$ 923,566	\$ 79,880	\$ (1,366,918)
Supporting services:					
Instructional staff	24,728	-	-	-	(24,728)
District administration	267,808	-	120,840	-	(146,968)
School administration	428,015	-	52,182	-	(375,833)
Business	66,775	-	-	-	(66,775)
Operation and maintenance of facilities	361,019	-	-	-	(361,019)
Transportation	243,444	-	215,880	-	(27,564)
School lunch services	183,198	38,703	116,782	-	(27,713)
Interest on long-term liabilities	16,298	-	-	-	(16,298)
Total school district	\$ 3,979,262	\$ 56,316	\$ 1,429,250	\$ 79,880	(2,413,816)
General revenues:					
Property taxes levied for:					
General purposes					178,827
Transportation					6,070
Debt service					99,769
Capital outlay					116,766
Federal and state aid not restricted to specific purposes					1,963,240
Earnings on investments					31,810
Miscellaneous					98,879
Total general revenues					2,495,361
Change in net assets					81,545
Net assets - beginning					3,141,115
Net assets - ending					\$ 3,222,659

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT

Balance Sheet Governmental Funds

June 30, 2006

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Assets:					
Cash and investments	\$ 1,061,248	\$ 205,477	\$ 222,113	\$ 172,060	\$ 1,660,898
Receivables:					
Property taxes	140,532	75,830	88,748	-	305,110
Other governments	6,600	-	-	-	6,600
Inventory				2,643	2,643
Total assets	<u>\$ 1,208,380</u>	<u>\$ 281,307</u>	<u>\$ 310,861</u>	<u>\$ 174,703</u>	<u>\$ 1,975,251</u>
Liabilities and fund balances:					
Liabilities:					
Accounts payable	\$ 152,743	\$ -	\$ -	\$ -	\$ 152,743
Accrued salaries	133,510	-	-	-	133,510
Deferred revenue:					
Property taxes	140,532	75,830	88,748	-	305,110
Other governments	-	-	-	65,697	65,697
Total liabilities	<u>426,785</u>	<u>75,830</u>	<u>88,748</u>	<u>65,697</u>	<u>657,060</u>
Fund Balances:					
Reserved for:					
Debt service	-	205,477	-	-	205,477
Unreserved:					
Designated for:					
Undistributed reserve	175,000	-	-	-	175,000
Undesignated, reported in:					
General fund	606,595	-	-	-	606,595
Capital projects fund	-	-	222,113	-	222,113
Special revenue funds	-	-	-	109,006	109,006
Total fund balances	<u>781,595</u>	<u>205,477</u>	<u>222,113</u>	<u>109,006</u>	<u>1,318,191</u>
Total liabilities and fund balances	<u>\$ 1,208,380</u>	<u>\$ 281,307</u>	<u>\$ 310,861</u>	<u>\$ 174,703</u>	<u>\$ 1,975,251</u>

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Total fund balances for governmental funds	\$ 1,318,191
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 124,999	
Buildings and improvements, net of \$1,499,537 accumulated depreciation	1,559,515	
Furniture and equipment, net of \$885,314 accumulated depreciation	618,491	2,303,005

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$875 and accrued interest for obligations under capital leases is \$2,270.	(3,145)
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Bond issuance costs are reported as expenditures in the governmental funds. The cost is \$34,500 and accumulated amortization is \$27,104.	7,396
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Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Bonds payable	(200,000)	
Obligations under capital leases	(57,708)	
Accrued vacation and sick leave	(145,080)	
Early retirement payable	0	(402,788)

Total net assets of governmental activities	\$ 3,222,659
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PIUTE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Revenues:					
Property taxes	\$ 184,897	\$ 99,769	\$ 116,766	\$ -	\$ 401,432
Earnings on investments	31,810	-	-	-	31,810
School lunch sales	-	-	-	38,703	38,703
Other local sources	110,304	-	1,278	4,910	116,492
State aid	2,708,025	-	79,880	47,982	2,835,887
Federal aid	483,732	-	-	152,751	636,483
Total revenues	3,518,768	99,769	197,924	244,346	4,060,807
Expenditures:					
Current:					
Instructional services	2,134,845	-	610	87,940	2,223,395
Supporting services:					
Instructional staff	24,728	-	-	-	24,728
District administration	255,458	-	-	-	255,458
School administration	425,295	-	-	-	425,295
Business	65,850	-	-	-	65,850
Operation and maintenance					
of facilities	342,814	-	-	-	342,814
Transportation	210,805	-	-	-	210,805
School lunch services	-	-	-	180,743	180,743
Capital outlay	-	-	121,159	-	121,159
Debt service:					
Principal retirement	-	60,000	55,526	-	115,526
Interest and fiscal charges	-	13,813	3,280	-	17,093
Total expenditures	3,459,795	73,813	180,575	268,683	3,982,866
Excess (deficiency) of revenues over (under) expenditures	58,973	25,956	17,349	(24,337)	77,941
Other financing sources (uses):					
Transfers	(25,500)	-	-	25,500	-
Equipment capital lease	-	-	-	-	-
Total other financing sources (uses)	(25,500)	-	-	25,500	-
Net change in fund balances	33,473	25,956	17,349	1,163	77,941
Fund balances - beginning	748,122	179,521	204,764	107,843	1,240,250
Fund balances - ending	\$ 781,595	\$ 205,477	\$ 222,113	\$ 109,006	\$ 1,318,191

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balances-total governmental funds	\$	77,941
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 for furniture and equipment and \$100,000 for buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 47,700	
Depreciation expense	<u>(157,693)</u>	(109,993)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.

Other financing source - capital lease	-	
Interest expense - capital leases	537	
Principal payments of capital leases	<u>55,526</u>	56,063

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	60,000	
Interest expense - general obligation bonds	258	
Amortization of bond issuance costs	<u>(2,464)</u>	57,794

In the statement of activities, certain operating expenses - compensated absences (vacations), special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, accrued sick leave increased by \$260, early retirement payable increased by \$0.

Change in net assets of governmental activities	\$	<u>81,545</u>
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PIUTE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Property taxes	\$ 136,384	\$ 181,610	\$ 184,897	\$ 3,287
Earnings on investments	18,000	7,730	31,810	24,080
Other local sources	153,400	155,350	110,304	(45,046)
State aid	2,858,025	2,694,413	2,708,025	13,612
Federal aid	419,909	556,020	483,732	(72,288)
Total revenues	3,585,718	3,595,123	3,518,768	(76,355)
Expenditures:				
Current:				
Instructional services	2,347,940	2,107,750	2,134,845	(27,095)
Supporting services:				
Instructional staff	29,315	24,728	24,728	-
District administration	317,923	251,836	255,458	(3,622)
School administration	267,385	448,999	425,295	23,704
Business	73,571	74,451	65,850	8,601
Operation and maintenance of facilities	350,059	342,816	342,814	2
Transportation	245,712	211,126	210,805	321
Total expenditures	3,631,905	3,461,706	3,459,795	1,911
Excess of revenues over expenditures	(46,187)	133,417	58,973	(74,444)
Other financing sources (uses):				
Transfer out	(18,000)	(20,000)	(25,500)	(5,500)
Net change in fund balances	(64,187)	113,417	33,473	(79,944)
Fund balances - beginning	748,122	748,122	748,122	-
Fund balances - ending	<u>\$ 683,935</u>	<u>\$ 861,539</u>	<u>\$ 781,595</u>	<u>\$ (79,944)</u>

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	<u>Agency Funds</u>
Assets:	
Cash and investments	\$ 62,603
Total Cash and investments	<u><u>\$ 62,603</u></u>
Liabilities	
Due to student groups	<u>\$ 62,603</u>
Total liabilities	<u><u>\$ 62,603</u></u>

The notes to the financial statements are an integral part of this statement.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Piute County School District have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The more significant accounting policies of the District are described below.

- **Reporting Entity** - The Board of Education, comprised of five elected individuals, is the primary governing authority for the District. The Board establishes District policies, approves budgets, appoints a Superintendent with responsibilities for administering all educational activities of the District, and appoints a Business Administrator with responsibilities for fiscal matters. The Board is authorized to issue bonds, incur short-term debt, levy property taxes, and is not dependent on any other unit of local government. As required by GAAP, these basic financial statements present the activities of the District. The District is not a component unit of any other primary government.

Government-wide and fund financial statements – The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, school administration, operation and maintenance of facilities, and school lunch services) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (*Continued*)

Program revenues include 1) fees and charges paid by students and other recipients of goods or services, offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

The *fund financial statements* provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category (governmental, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *capital projects fund* accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the District.
- The *debt service fund* accounts for resources (primarily taxes) accumulated and payments made for retirement of general obligation debt and for payment of associated interest and fees on that debt.

The District reports the following nonmajor special revenue funds that receive revenues which are restricted to expenditures for specified purposes:

- The *school food services fund* accounts for preparation and service of school lunches and breakfasts.
- The *non K-12 fund* accounts for preschool, adult education, recreation and other non K-12 programs.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (Continued)

Additionally, the District reports the following fund type:

- The *student activities agency fund (a fiduciary fund)* accounts for assets held on behalf of student groups and others.

Measurement focus, basis of accounting, and financial statement presentation – The *government-wide and fiduciary fund financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and post-employment healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (Continued)

Budgetary Data – Budgets are presented on the modified accrual basis of accounting for all governmental funds. Budgets are not adopted on a District level for the student activities agency fund. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During June of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.
- Copies of the proposed budget are made available for public inspection and review by the District's patrons.

If the District does not exceed the certified tax rate, a public hearing is held prior to June 22nd at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when data is available to set the tax rates.

- Once adopted, the budget can be amended by subsequent Board action. The Board, upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2006, have been included in the final budget approved by the Board, as presented in the financial statements. Budgets were amended at year end.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is employed in the governmental funds and the internal service fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (Continued)

Negative variances in total revenues and the positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

Deposits and Investments – The cash balances of substantially all funds are pooled and invested by the District for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The pool's investments are reported at fair value at year-end. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

Cash and Cash Equivalents – The District considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resource.

Inventories – Inventories are valued at cost or, if donated, at fair value when received, using the moving average method. The consumption method of accounting is applied to the inventories of all funds.

Inventories of donated United States Department of Agriculture (USDA) commodities on hand at year-end are reported on the balance sheet at fair market value on the date received as inventory. Commodities used during the year are reported as revenues and expenditures on the operating statement.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (Continued)

Capital Assets – Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 for land, furniture and equipment and \$100,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Furniture	15
Portable Classrooms	15
Machinery and Tools	15
Buses	15
Laboratory Equipment	10
Musical Instruments	10
Licensed Vehicles	10
Computers	5

Compensated Absences – Under terms of association agreements, twelve-month or full-year employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated sick days to a maximum of 120 days at \$60 per day. No reimbursement or accrual is made for unused vacation leave.

All sick pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds if they have matured, for example, as a result of employee resignations and retirements.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY (Continued)

Long-term Obligations – In the government-wide financial statements financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Comparative Data and Reclassifications – Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

2. DEPOSITS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The district follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. District funds are deposited in qualified depositories as defined by the Act. The District does not have a deposit policy for custodial credit risk. As of June 30, 2006, the District's custodial credit risk for deposits were as follows:

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

2. DEPOSITS AND INVESTMENTS (Continued)

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2006</u>
Regular Checking Account	Insured	\$ 108,847
Regular Checking Account	Uninsured and collateralized	<u>1,228,491</u>
		<u><u>\$1,332,338</u></u>

B. Investments

The District's investments are managed through participation in the state Public Treasurer's Investment Fund and through a repurchase agreement arrangement with a local bank. As of June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	42 days average	<u>\$499,153</u>

Investments – Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The District follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The District has no investment policy that would further limit its investment choices.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

3. PROPERTY TAXES

The property tax revenue of the District is collected and distributed by the Piute County treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%. The interest rate period is from January 1 until the date paid.

Beginning January 1, 1992, an annual uniform fee based on the value of motor vehicles was levied in lieu of an ad valorem tax on motor vehicles. This uniform fee was 1.5% of the fair market value statewide value of the property, as established by the State Tax Commission. Effective January 1, 1999, legislation required motor vehicles be subject to an "age-based" fee that is due each time a vehicle is registered. The age-based fee is for passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each county from motor vehicle fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when the County collects it.

As of June 30, 2006, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2006 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 125,000	\$ -	\$ -	\$ 125,000
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	125,000	-	-	125,000
Capital assets, being depreciated				
Buildings and improvements	3,038,353	20,700	-	3,059,053
Furniture and equipment	<u>1,476,904</u>	<u>27,000</u>	<u>-</u>	<u>1,503,904</u>
Total capital assets, being depreciated	<u>4,515,257</u>	<u>47,700</u>	<u>-</u>	<u>4,562,957</u>
Accumulated depreciation for:				
Buildings and improvements	(1,434,857)	(64,681)	-	(1,499,538)
Furniture and equipment	<u>(792,401)</u>	<u>(93,012)</u>	<u>-</u>	<u>(885,413)</u>
Total accumulated depreciation	<u>(2,227,258)</u>	<u>(157,693)</u>	<u>-</u>	<u>(2,384,951)</u>
Total capital assets, being depreciated, net	<u>2,287,999</u>	<u>(109,993)</u>	<u>-</u>	<u>2,178,006</u>
Governmental activities capital assets, net	<u>\$2,412,999</u>	<u>(\$ 109,993)</u>	<u>-</u>	<u>\$2,303,006</u>

For the year ended June 30, 2006, depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Instructional services	\$ 88,659
Supporting services:	
District administration	12,350
School administration	2,460
Central	925
Operation and maintenance of facilities	18,205
Transportation	32,639
School lunch services	<u>2,455</u>
Total depreciation expense - governmental activities	<u>\$ 157,693</u>

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

5. RETIREMENT PLANS

Defined Benefit Plans - The District contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System (Systems), which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Contributory Retirement System are required to contribute 5% of their annual covered salary (all or part may be paid by the employer for the employee) and Piute County School District is required to contribute 8.89% of their member's annual covered salary. In the State and School Noncontributory Retirement System the Piute County School District is required to contribute 13.38% of the member's annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions to the State and School Contributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$576, \$492, and \$446 respectively. The Noncontributory Retirement System contributions for June 30, 2006, 2005 and 2004 were \$205,264, \$188,413, and \$166,968 respectively. The contributions were equal to the required contributions for each year.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

5. RETIREMENT PLANS (*Continued*)

Defined Contribution Plan – The District participates in a defined contribution plan under Internal Revenue Code Section 401(k) to supplement retirement benefits accrued by participants in the Systems. Employees covered by the State and School Noncontributory Retirement System have a contribution of 1.5% of covered salaries automatically made by the District. Employees participating in the Systems can make additional contributions to the 401(k) plan up to specified limits. Contributions and earnings may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement. The employer 401(k) contributions for the years ended June 30, 2006, 2005, and 2004 were \$35,218, \$33,221, and \$32,363 respectively; the employee contributions for the years ending June 30, 2006, 2005, and 2004 were \$24,563, \$23,162, and \$25,681 respectively. The 401(k) plan funds are fully vested to the participants at the time of deposit. Plan assets are administered and held by URS.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined with other public entities in a common risk management and insurance program operated by the State of Utah Division of Risk Management. The District pays premiums to this risk pool, the Utah State Risk Management Fund, for its general insurance coverage. The pool is self sustaining through member premiums and reinsures through commercial companies for claims in excess of specified amounts for certain types of risks. The District is subject to a minimal deductible for claims of the risk pool. The District has purchased commercial insurance for other risks of loss including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	<u>\$ 260,000</u>	<u>-</u>	<u>\$ (60,000)</u>	<u>\$ 200,000</u>	<u>\$ 65,000</u>
Total bonds payable, net	<u>260,000</u>	<u>-</u>	<u>(60,000)</u>	<u>200,000</u>	<u>65,000</u>
Obligations under capital lease	<u>113,234</u>		<u>(55,526)</u>	<u>57,708</u>	<u>57,708</u>
Accrued sick pay payable	<u>144,820</u>	<u>260</u>	<u>-</u>	<u>145,080</u>	<u>-</u>
Total governmental activity					
Long-term liabilities	<u>\$ 518,054</u>	<u>\$ 260</u>	<u>\$ (115,526)</u>	<u>\$ 402,788</u>	<u>\$122,708</u>

Payments on the general obligation bonds are made by the debt service fund from property taxes and earnings on investments. The obligations under capital leases are paid by the capital projects fund. Vacation, sick leave, and early retirement benefits will be paid by the fund in which the employee worked.

General Obligation Bonds – On March 27, 1996 the District issued general obligation refunding bonds to defease their 1989 Series Bonds. The bonds bear interest between 4.45% and 5.30%. Outstanding general obligation bonds at June 30, 2006 are as follows:

	<u>Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
Series 1996 Dated March 27, 1996 - Original Amount \$620,000	4.45% to 5.30%	2009	<u>\$ 200,000</u>
Total			<u>\$ 200,000</u>

The debt service requirements to maturity for the general obligation bonds are shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 65,000</u>	<u>\$10,503</u>	<u>\$ 75,503</u>
2008	<u>65,000</u>	<u>7,123</u>	<u>72,123</u>
2009	<u>70,000</u>	<u>3,710</u>	<u>73,710</u>
Total	<u>\$ 200,000</u>	<u>\$ 21,336</u>	<u>\$ 221,336</u>

PIUTE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. LONG-TERM DEBT (Continued)

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006 is \$2,107,115. General obligation debt at June 30, 2006 is \$200,000, resulting in a legal debt margin of \$1,907,115.

Obligations Under Capital Lease – The District obtained equipment and buses under capital lease arrangements. Annual payments are funded either through the capital projects fund or from transportation. The future minimum lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 113,234</u>	<u>\$ 6,721</u>	<u>\$ 119,955</u>

8. DESIGNATED FOR UNDISTRIBUTED RESERVE

Utah State law allows for the establishment of an undistributed reserve. The Board of Education must authorize expenditures from the undistributed reserve. This reserve is for contingencies. According to State law, the District may not use undistributed reserves in the negotiation or settlement of contract salaries for District employees. The undistributed reserve may not exceed 5% of the current fiscal year's total general fund budgeted revenues. Use of the reserve requires a written resolution adopted by a majority vote of the Board filed with Utah State Board of Education and State Auditor.

9. GRANTS

The District receives significant financial assistance from Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any fund. Actual expenditures in the School Lunch Fund exceeded appropriations by \$7,971.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

School Lunch Fund – This fund is used to account for the food service activities of the District as required by state and federal law. Financing is provided by local sales along with substantial subsidies from the State of Utah and the U.S. Government to help ensure that students receive low-cost, nutritionally balanced meals.

Non K-12 Programs Fund – This fund is used to account for programs that are not part of the basic educational program of kindergarten, elementary and secondary students. These areas include adult education and preschool for disabled students. This fund is also used to account for costs to provide community educational and recreational activities. Financing is provided primarily through grants and student fees.

PIUTE COUNTY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>School Lunch</u>	<u>Non K-12 Programs</u>	
Assets:			
Cash and investments	\$ 2,925	\$ 169,135	\$ 172,060
Receivables:			
Other governments	-	-	-
Inventory	2,643	-	2,643
Total assets	<u>\$ 5,568</u>	<u>\$ 169,135</u>	<u>\$ 174,703</u>
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue:			
Other governments	2,643	63,054	65,697
Total liabilities	<u>2,643</u>	<u>63,054</u>	<u>65,697</u>
Fund balances:			
Unreserved:			
Undesignated	2,925	106,081	109,006
Total fund balances	<u>2,925</u>	<u>106,081</u>	<u>109,006</u>
Total liabilities and fund balances	<u>\$ 5,568</u>	<u>\$ 169,135</u>	<u>\$ 174,703</u>

PIUTE COUNTY SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	<u>Special Revenue</u>		Total
	School	Non K-12	Nonmajor
	Lunch	Programs	Governmental
			Funds
Revenues:			
Property tax	\$ -	\$ -	\$ -
Student fees	-	4,910	4,910
Lunch sales	38,703	-	38,703
State aid	13,112	34,870	47,982
Federal aid	103,670	49,081	152,751
Total revenues	<u>155,485</u>	<u>88,861</u>	<u>244,346</u>
Expenditures:			
Current:			
Instructional services	-	87,940	87,940
School lunch services	180,743	-	180,743
Total expenditures	<u>180,743</u>	<u>87,940</u>	<u>268,683</u>
Excess of revenues over expenditures	(25,258)	921	(24,337)
Other financing sources:			
Transfer in	25,500	-	25,500
Net change in fund balances	242	921	1,163
Fund balances - beginning	<u>2,683</u>	<u>105,160</u>	<u>107,843</u>
Fund balances - ending	<u>\$ 2,925</u>	<u>\$ 106,081</u>	<u>\$ 109,006</u>

PIUTE COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
School Lunch
Nonmajor Special Revenue Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006		Variance with	2005
	Final Budgeted Amounts	Actual Amounts	Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Lunch sales - children	\$ 31,325	\$ 31,325	\$ -	\$ 27,719
Lunch Sales - adult	3,996	3,996	-	4,739
Other local sales	3,382	3,382	-	189
Total local sources	38,703	38,703	-	32,647
State sources:				
State lunch program	13,112	13,112	-	16,061
Total state sources	13,112	13,112	-	16,061
Federal sources:				
Federal lunch program	10,873	10,873	-	10,136
Free and reduced assistance	60,132	60,132	-	58,864
Breakfast program	24,695	24,695	-	24,092
Other	6,825	7,970	1,145	8,821
Total federal sources	102,525	103,670	1,145	101,913
Total revenues	154,340	155,485	1,145	150,621
Expenditures:				
Current:				
Salaries	65,663	65,663	-	63,858
Employee benefits	31,186	31,187	(1)	28,004
Purchased services	4,949	4,949	-	5,390
Supplies	188	188	-	209
Food	69,075	77,045	(7,970)	70,697
Other	1,711	1,711	-	16,391
Total expenditures	172,772	180,743	(7,971)	184,549
Excess (deficiency) of revenues over expenditures	(18,432)	(25,258)	(6,826)	(33,928)
Other financing sources and (uses)				
Transfers in	20,000	25,500	5,500	34,000
Transfers out	-	-	-	-
Net change in fund balances	1,568	242	(1,326)	72
Fund balances - beginning	2,683	2,683	-	2,611
Fund balances - ending	\$ 4,251	\$ 2,925	\$ (1,326)	\$ 2,683

PIUTE COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Non K-12 Programs
Nonmajor Special Revenue Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Property taxes	\$ -	\$ -	\$ -	
Community school fees	-	4,910	4,910	36,251
Total local sources	-	4,910	4,910	36,251
State sources:				
Adult high school completion	21,464	21,464	-	19,675
Preschool	13,406	13,406	-	52,368
Medicare Outreach			-	-
Total state sources	34,870	34,870	-	72,043
Federal sources:				
Special education preschool grant	25,408	49,081	23,673	-
Adult education	-	-	-	-
Total federal sources	25,408	49,081	23,673	-
Total revenues	60,278	88,861	28,583	108,294
Expenditures:				
Current:				
Salaries	56,832	56,832	-	58,336
Employee benefits	22,889	22,889	-	23,919
Purchased services	2,237	2,237	-	3,581
Supplies	5,618	5,618	-	9,415
Equipment	364	364	-	14,950
Total expenditures	87,940	87,940	-	110,201
Excess (deficiency) of revenues over (under) expenditures	(27,662)	921	28,583	(1,907)
Fund balances - beginning	105,160	105,160	-	107,067
Fund balances - ending	\$ 77,498	\$ 106,081	\$ 28,583	\$ 105,160

MAJOR GOVERNMENTAL FUNDS

General Fund – This fund services primary on-going operation of the District. It is used to account for activity and financial resources that are not required to be accounted for in other funds.

Debt Service Fund - The Debt Service Fund is used to account for the receipt of property taxes levied for retirement of general obligation debt. The expenditures are for principal retirement and for payment of interest and fees.

Capital Projects Fund - The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. Financing is provided by an annual property tax levy not to exceed .0024 plus an additional levy in an amount not to exceed 10% of the cost of the basic program as authorized by Utah Code 53A-16-104 and 53A-17a-145. Also, state funds can be obtained by qualifying under guidelines established for districts determined to be in critical need for construction building aid.

PIUTE COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Debt Service Fund
Year Ended June 30, 2006

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Property tax	\$ 73,593	\$ 99,769	\$ 26,176	\$ 100,693
Earnings on investments			-	
Total revenues	73,593	99,769	26,176	100,693
Expenditures:				
Debt service:				
Bond principal	60,000	60,000	-	55,000
Bond interest	13,813	13,813	-	16,658
Total expenditures	73,813	73,813	-	71,658
Excess (deficiency) of revenues over (under) expenditures	(220)	25,956	26,176	29,035
Other financing sources (uses):				
Proceeds of refunding bonds	-	-	-	
Payment to refunded bond escrow agent	-	-	-	
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(220)	25,956	26,176	29,035
Fund balance - beginning	179,521	179,521	-	150,486
Fund balance - ending	\$ 179,301	\$ 205,477	\$ 26,176	\$ 179,521

PIUTE COUNTY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Capital Projects Fund
Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Property taxes	\$ 157,059	\$ 116,766	\$ (40,293)	\$ 111,617
Other local revenues	1,278	1,278	-	-
Total local sources	158,337	118,044	(40,293)	111,617
State sources:				
Capital outlay foundation	54,880	54,880	-	62,860
Other	25,000	25,000	-	-
Total state sources	79,880	79,880	-	62,860
Total revenues	238,217	197,924	(40,293)	174,477
Expenditures:				
Instructional Services:				
Salaries and Benfits	-	-	-	-
Supplies	608	610	(2)	1,640
Total instructional services	608	610	(2)	1,640
Land and buildings:				
Land improvements	9,481	9,480	1	4,310
Building improvements	14,361	14,361	-	7,775
Total land and buildings	23,842	23,841	1	12,085
Equipment:				
Equipment	98,219	97,318	901	62,499
Capital lease principal	55,526	55,526	-	89,553
Capital lease interest	3,280	3,280	-	7,544
Other instructional equipment	-	-	-	-
Buses	-	-	-	-
Total equipment	157,025	156,124	901	159,596
Total expenditures	181,475	180,575	900	173,321
Excess (deficiency) of revenues over				
(under) expenditures	56,742	17,349	(39,393)	1,156
Other Financing Sources (Uses):				
Equipment capital lease	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	56,742	17,349	(39,393)	1,156
Fund balance - beginning	204,764	204,764	-	203,608
Fund balance - ending	\$ 261,506	\$ 222,113	\$ (39,393)	\$ 204,764

FIDUCIARY FUNDS

Student Activities Agency Fund – This fund is used to account for the receipt and disbursement of monies for student activity groups and organizations and other custodial type transactions within the schools. The District has a fiduciary responsibility concerning these funds to ensure their safety and accountability.

PIUTE COUNTY SCHOOL DISTRICT
Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

	<u>Net Assets at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Net Assets at June 30, 2006</u>
Assets:				
Cash and investments	\$ 54,125	\$ 182,663	\$ 174,185	\$ 62,603
Advance from other fund	-	-	-	-
	<u>\$ 54,125</u>	<u>\$ 182,663</u>	<u>\$ 174,185</u>	<u>\$ 62,603</u>
Liabilities:				
Due to other funds	\$ -		\$ -	\$ -
Due to student organizations:				
Elementary Schools:				
Oscarson Elementary	2,248	10,372	8,773	3,847
Circleville Elementary	<u>4,636</u>	<u>18,017</u>	<u>19,084</u>	<u>3,569</u>
Total elementary schools	<u>6,884</u>	<u>28,389</u>	<u>27,857</u>	<u>7,416</u>
High Schools:				
Piute High School	<u>47,241</u>	<u>154,274</u>	<u>146,328</u>	<u>55,187</u>
Total high schools and special purpose programs	<u>47,241</u>	<u>154,274</u>	<u>146,328</u>	<u>55,187</u>
Total due to student organizations	<u>54,125</u>	<u>182,663</u>	<u>174,185</u>	<u>62,603</u>
Total liabilities	<u>\$ 54,125</u>	<u>\$ 182,663</u>	<u>\$ 174,185</u>	<u>\$ 62,603</u>

PIUTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2006

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, CPA
LYNN A. GILBERT, CPA
JAMES A. GILBERT, CPA
BEN H. PROBST, CPA
RONALD J. STEWART, CPA

SIDNEY S. GILBERT, CPA
JAMES E. STEWART, CPA
ROBERT PHELPS, CPA

December 20, 2006

Piute County School District
Junction, UT

We have audited the financial statements of Piute County School District for the year ended June 30, 2006 and have issued our report thereon dated December 20, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Piute County School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Piute County School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Piute County School District are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Piute County School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Piute County School District's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing our audit.

Utah State Findings - Current Year

06-1 Budgetary Compliance

Finding: *Utah Code , Section 53A-19* requires the District to maintain expenditures within the adopted budget. We noted that the District's actual expenditures exceeded budgeted expenditures in the following fund:

School Lunch Fund

\$ 7,971

Recommendation: We recommend that the District make proper adjustments of the budget each year end to comply with state law. In this particular case non-cash revenue and expenditure for commodities from the Federal government were not taken into account on the final budget. We recommend allowance be provided for these items in the future.

District's Response: We concur with the auditor's recommendation.

Utah State Findings - Prior Year

05-1 Budgetary Compliance

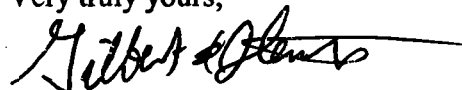
Certain funds expended in excess of those amounts budgeted. See current year finding number 06-1.

Other Matters for Consideration

1. During our testing of cash disbursements we note instances where proper back up was not being kept for certain disbursements. Most of these expenditures were found in the Family Preservation program. We recommend the use of the purchase order system to properly document and approve these expenditures. For all reimbursements, we recommend that a reimbursement request form be filled out with detail about the expenditure and the purpose of the expenditure. These improvements will help verify and properly record expenditures.

This information is intended solely for the use of The Piute County School District and the management of the Piute County School District, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART

Certified Public Accountants